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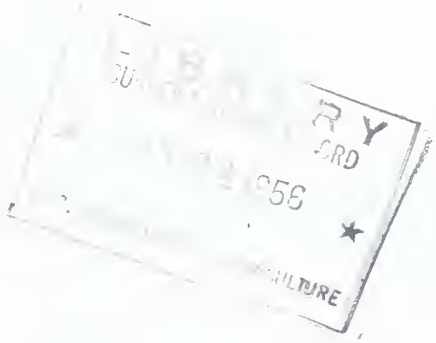
Marketing Margins for Poultry and Eggs



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Agricultural Marketing Service

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MARKETING MARGINS FOR POULTRY AND EGGS 1/

Poultry and eggs were among the few food products for which marketing margins declined during 1955. The 1955 average retail price of frying chickens, farm value, gross marketing margin, and farmer's share were all close to the averages of 1953, a year generally considered favorable to poultry producers (table 11).

Table 11.- Chickens (broilers and fryers): Retail price per pound in urban areas in the United States, farm value, marketing margin, and farmer's share of the retail price, 1949-55

Year	Retail price	Farm value 2/	Marketing margin	Farmer's share
	Cents	Cents	Cents	Percent
1949 1/	51.6	33.3	18.3	65
1950	50.4	32.8	17.6	65
1951	52.7	34.1	18.6	65
1952	52.9	34.8	18.1	66
1953	53.0	33.2	19.8	63
1954	48.8	28.8	20.0	59
1955 3/	51.8	32.2	19.6	62

1/ 9 month average -- Apr. to Dec.
2/ Payment to producers for live weight quantity equivalent to 1 pound retail weight.
3/ Preliminary.

The farm value of frying chickens (or broilers as they generally are called in the producing areas) in 1955 averaged 32.2 cents or 62 percent of the average retail price of 51.8 cents per pound for 1955. Compared with 1954, retail prices averaged 3.0 cents per pound higher and the farm value averaged 3.4 cents higher. The gross farm-to-retail price spread averaged 0.4 cent less, dropping from 20.0 cents per pound to 19.6 cents. The farm value as a percentage of the retail price rose 3 points from 59 to 62 percent.

The farm value of eggs rose in 1955 to 69 percent of the average retail price of 58.0 cents per dozen. Compared with 1954, retail prices in 1955 averaged 1.8 cents per dozen higher, the farm value increased 2.6 cents from 37.5 to 40.1 cents, the average gross marketing margin fell 0.8 cent from 18.7 to 17.9 cents, and the farmer's share rose 2 points from 67 percent to 69 percent. The gross marketing margin on eggs of 17.9 cents in 1955 was only slightly more than the average of 17.8 cents in 1953 and considerably less than for all other years in the 1949-54 period (table 12).

1/ Prepared by Robert M. Conlogue and Frank R. Manson.

Table 12.- Eggs: Retail price per dozen in urban areas in the United States, farm value, marketing margin, and farmer's share of the retail price, 1949-55

Year	Retail price 1/	Farm value 2/	Marketing margin	Farmer's share
	Cents	Cents	Cents	Percent
1949	65.9	46.8	19.1	71
1950	57.1	38.0	19.1	67
1951	69.7	49.4	20.3	71
1952	63.6	43.2	20.4	68
1953	66.8	49.0	17.8	73
1954	56.2	37.5	18.7	67
1955 3/	58.0	40.1	17.9	69

1/ Estimated average prices of all eggs sold to consumers in retail stores in urban communities having populations of 2,500 or larger.
2/ Average payments received by farmers for 1.03 dozen eggs.
3/ Preliminary.

Marketing Margins for Frying Chickens in Chicago and Minneapolis-St. Paul

A special survey of the marketing of frying chickens being conducted by the Agricultural Marketing Service in Chicago and in Minneapolis-St. Paul has provided additional data on marketing margins. 2/ Marketing of poultry, particularly in the Chicago area, is strongly competitive, with much advertising of prices. The larger independent stores and the chain-store companies are able to handle truckload lots and to buy directly from processing plants either in the South or in nearby areas. Thus, they are probably in a better competitive position than the smaller retailers who have facilities for keeping only a few fryers or fowl at one time. Small stores generally depend upon local processing plants or wholesalers whose costs and prices usually are higher because of the small quantities handled. Retail prices usually are higher in the small independent stores than in the large independent and chain stores. Many small stores no longer handle fresh poultry but usually carry small quantities of frozen poultry such as whole fryers, breasts, legs, and thighs. These are often carried only as an accommodation to their customers as only a few stores, such as those located in apartment house areas, have sufficiently large sales to make these items profitable.

A considerable proportion of the fryers sold in Chicago and Minneapolis-St. Paul are produced on farms in Georgia and Arkansas which specialize in the production of commercial broilers. The spread between retail-store prices of fryers in Chicago and Minneapolis-St. Paul and the price (eviscerated weight basis) received by producers in Arkansas and Georgia averaged between 18.0 and 23.5 cents per pound during the period when the AMS survey was conducted.

2/ The data given for marketing margins in Chicago and Minneapolis-St. Paul are preliminary and subject to revision. This study is still in progress.

Gross marketing margins for fresh ready-to-cook fryers sold through independent wholesalers and retail stores in Chicago averaged 19.8 cents per pound in July 1955. Margins on those sold through chain stores, most of which perform both the wholesaling and retailing functions, averaged 17.1 cents. 3/

In Minneapolis and St. Paul in the same month, the farm-to-retail price spread for fryers sold by independent retailers averaged 20.9 cents per pound. This was slightly higher than in the same type of distribution channel in Chicago. Fryers sold through chain stores in Minneapolis-St. Paul carried gross marketing margins averaging 19.9 cents per pound in July 1955. This is almost as high as for fryers sold through independent stores and considerably more than margins on chain store distributed birds in Chicago.

Marketing Margins for Retailers

Gross margins of independent retailers in Chicago on fresh, whole, ice packed fryers averaged 10.3 cents per pound in July (table 13) and 8.8 cents in October, when retail prices of fryers were lower. In Minneapolis-St. Paul in July, independent retailers realized a gross margin of 10.2 cents per pound, and 12.2 cents in October. Margins varied widely among independent retailers depending upon the form in which fryers were sold and other factors. Many retailers realized gross margins of about 16.5 cents per pound on fresh parts, such as breasts and legs, and about 18.0 cents on frozen parts. Margins on frozen chicken and chicken parts sold in independent retail stores tend to remain more steady than margins on fresh chicken and chicken parts, partly because of the relatively common practice of featuring fresh chicken on special sales on weekends, holidays, and seasonally.

Chain stores operated on a gross margin of about 9.6 cents per pound in Chicago and 12.4 cents in Minneapolis in July 1955. These are the margins between the retail price and the price paid by chain stores for fryers delivered f.o.b. Chicago or Minneapolis-St. Paul. In October 1955, Chicago chains had a gross margin of 10 cents per pound. October data are not available at this time for Minneapolis-St. Paul. The difference in margins between the two cities may be due primarily to the more widespread use of poultry as a low profit "leader" in Chicago.

No attempt was made to determine operating costs of retailing poultry because of the difficulty of accurately allocating joint costs of handling among thousands of products. Retail margins on poultry, however, appear to be a somewhat smaller percentage of the retail price than the average gross margin for all products handled by retail stores.

3/ Data summarized for Chicago and Minneapolis-St. Paul are based on information received through personal interviews with representative samples of 100 independent retailers in each of the two cities, 15 wholesalers in Chicago and 10 wholesalers in Minneapolis-St. Paul distributing to these retailers, 6 chain-store companies in Chicago and 4 companies in Minneapolis-St. Paul, and 15 processors in Georgia and Arkansas shipping broilers to the two cities.

Table 13.- Fryers: Average retail price per pound, purchase cost, and marketing margin in retail stores, Chicago and Minneapolis-St. Paul, July and October 1955

Outlet, month and year	Average selling price	Average purchase cost	Average retail marketing margin
	Cents	Cents	Cents
Independent retailers :			
Chicago :			
July 1955	55.1	44.8	10.3
Oct. 1955	47.1	38.3	8.8
Minneapolis-St. Paul:			
July 1955	56.7	46.5	10.2
Oct. 1955	52.9	40.7	12.2
Chain retailers :			
Chicago :			
July 1955	56.8	47.2	9.6
Oct. 1955	49.8	39.8	10.0
Minneapolis-St. Paul:			
July 1955	59.6	47.2	12.4
Oct. 1955 1/			

1/ Not available at this time.

In evaluating retail margins consideration must be given to price making policy. For example, retailers in Chicago may handle poultry as a low margin item and some other commodity as a high margin item, while the reverse may be true in Minneapolis-St. Paul. Thus consumers in Minneapolis-St. Paul, while paying more for frying chickens than consumers in Chicago may be paying less for some other foods.

Margins and Costs for Wholesalers

Wholesalers of fryers in Chicago in July 1955 operated on an average gross margin of about 2 cents per pound eviscerated weight. During July, Chicago wholesalers paid about 41 cents, f.o.b. Chicago, for fryers and sold them for about 43 cents (table 14). Preliminary figures for October indicate an average buying price of about 34 cents and an average selling price of 36 cents. These firms buy poultry from processors in truck-lots and distribute to retailers, hotels, restaurants, and other users in whatever quantities are desired. Usually boxes of poultry are sold as received but occasionally boxes may be broken to serve small-volume customers. Some re-icing of fresh poultry is necessary at times and inventories of varying size (requiring refrigerated storage space) must be maintained at all times.

Table 14.- Fryers: Average selling price per pound purchase cost, and marketing margin for wholesalers in Chicago and Minneapolis-St. Paul, July and October 1955

Month and year	Average selling price	Average cost	Average margin
	Cents	Cents	Cents
Chicago			
July 1955	43.1	41.1	2.0
Oct. 1955	36.0	34.1	1.9
Minneapolis-St. Paul			
July 1955	47.5	44.3	3.2
Oct. 1955	40.9	37.1	3.8

Wholesalers in Minneapolis, many of whom act as buying organizations for large groups of independent stores, operated on margins averaging more than 1 cent larger than in Chicago. The principal reason for this difference appears to be the additional services such as advertising, record keeping, and counseling performed by Minneapolis wholesalers for their associated or member retail stores. In addition, the competitive situation on fryers was not quite as intense in Minneapolis as it was in Chicago during July and October 1955. Gross margins in Minneapolis on fryers were 3.2 cents per pound in July and preliminary data indicate a margin of 3.8 cents per pound in October. Minneapolis wholesalers bought fryers for 44.3 cents per pound in July and sold them on the average for 47.5 cents per pound. In October they paid about 37 cents per pound and sold for about 41 cents on the average (table 14).

Labor constitutes about 70 percent of a typical wholesaler's total costs; building, including fuel, power and light, 11 percent; transportation, 9.5 percent; selling, 4.5 percent; overhead, 4 percent; and miscellaneous, 1 percent.

Processor Margins

Processors in Georgia and Arkansas, who shipped to Chicago and Minneapolis in July paid, on the average, 25.3 cents per pound live weight for broilers and fryers at farms. This is equivalent to 34.7 cents per pound on an eviscerated weight basis. Delivered selling prices of these birds, in fresh, ice-packed, ready-to-cook form, averaged 42.2 cents per pound, making an average gross margin of 7.5 cents per pound. In October paying prices for live broilers averaged 20.5 cents per pound, equivalent to 28.1 cents per pound eviscerated, and selling prices averaged 35.5 cents per pound. The gross margin was 7.4 cents, about the same as in July (table 15).

Table 15.- Average terminal market selling price per pound received for fryers and broilers sold by Arkansas and Georgia processors, average payment to producers, and marketing margin, July and October 1955

Month and year	Average selling price	Average purchase cost (eviscerated weight)	Average margin
	Cents	Cents	Cents
July 1955	42.2	34.7	7.5
Oct. 1955	35.5	28.1	7.4

Average costs, selling prices, and margins are for total monthly volumes of all processors, wholesalers, and retailers covered by the study. Since these processors sell only part of their volume to Chicago and Minneapolis wholesalers, and since the wholesalers buy portions of their receipts from other processors, the average selling prices of processors in this study are not identical with the average buying prices for the wholesalers covered in the study. A similar explanation is appropriate for the differences between wholesalers' average selling prices and retailers' average buying prices.

Operating costs for processors vary according to the methods used in handling broilers at the plant and in processing, packaging, and delivering. Some processors may use their own trucks for pickup at the farm, others pay a fee for this service. Plants which feed the broilers prior to slaughter have a feeding cost, other plants slaughter soon after delivery. Some plants sell whole, eviscerated birds only; others cut up all birds or sell both whole and cut-up birds. Some firms use ice-pack only, others use dry-pack. Some sell all birds fresh, others may freeze all or part of their volume. Because of the variety of methods used, and also because of the lack of standard accounting records, it is difficult to determine specific costs accurately. However, costs given in table 16 appear to be fairly typical of large plants in Georgia and Arkansas.

Marketing Margins on Poultry and Eggs in Four Large Cities

Preliminary results of a special study of marketing margins on poultry and eggs retailed in four large United States cities indicate that gross farm-to-retail price spreads remained generally steady during the 7 months, May to November 1955 (tables 17 and 18). Retail and farm prices during most of the period moved up and down together but instances of farm price movements leading retail price changes are evident, particularly for eggs. These "leads" and "lags," of course, had temporary effects on marketing margins.

This special study, initiated in May 1955, is designed to provide monthly measurements of marketing margins on seven different poultry and egg items in a limited number of large cities in all major geographic regions. These items are: Eggs, Grade A, large, medium, and small; ready-to-cook frying chickens; and ready-to-cook turkeys of three broad weight classes. The study was initiated in New York, Chicago, Los Angeles, and Atlanta. In July, five more cities were added.

Table 16.- Distribution of marketing margins for Georgia and Arkansas broiler processors

Item	Per pound of output, eviscerated weight	Items included in marketing margin
	Cents	
Hauling in	0.75	Picking up broilers at farm and hauling to processing plant.
Feeding	.25	Feeding birds at plant before slaughter.
Labor (processing)	3.00	All labor used in handling birds from time they are put on line until packaged.
Packaging	1.00	Boxes and other packaging material.
Miscellaneous expense and overhead	1.25	Overhead, profit, etc.
Freight (average)	1.25	Delivery expense.
Total	7.50	

Estimates of average retail prices, farm values, and gross marketing margins for the four cities (New York, Los Angeles, Chicago, and Atlanta) are based upon data collected by the Bureau of Labor Statistics and the Dairy and Poultry Market News Branch of the Agricultural Marketing Service. The farm values, or payments received by farmers, used in computing the margins for each city from which the four-city averages were calculated were estimated from prices received by farmers in the producing areas which supply the greatest volume of the respective product for the selected city. This understates somewhat the magnitude of the average margin for all eggs sold in these cities. New York City, for example, draws eggs not only from nearby areas but also from the Midwest.

Frying Chickens

Average gross marketing margins on frying chickens in the four cities ranged from 18.0 to 21.8 cents per pound during the 7 months (table 17). These margins allow for shrinkage loss which simply means the loss in weight of a bird from a "live" basis at the farm to a ready-to-cook basis at the retail level. In other words, for every pound sold at the retail level, 1.41 pounds are sold on the farm. As prices of live birds go up and down, shrinkage costs also increase and decrease in a nearly constant relationship.

The retail price and farm value of frying chickens in the four cities and three producing areas included in this study remained fairly steady from May through September at about 57 and 37 cents per pound, respectively. But, in October and November, both fell sharply. Farm values fell more than retail prices, so the marketing margins widened. However, this may be the result of strictly temporary marketing conditions.

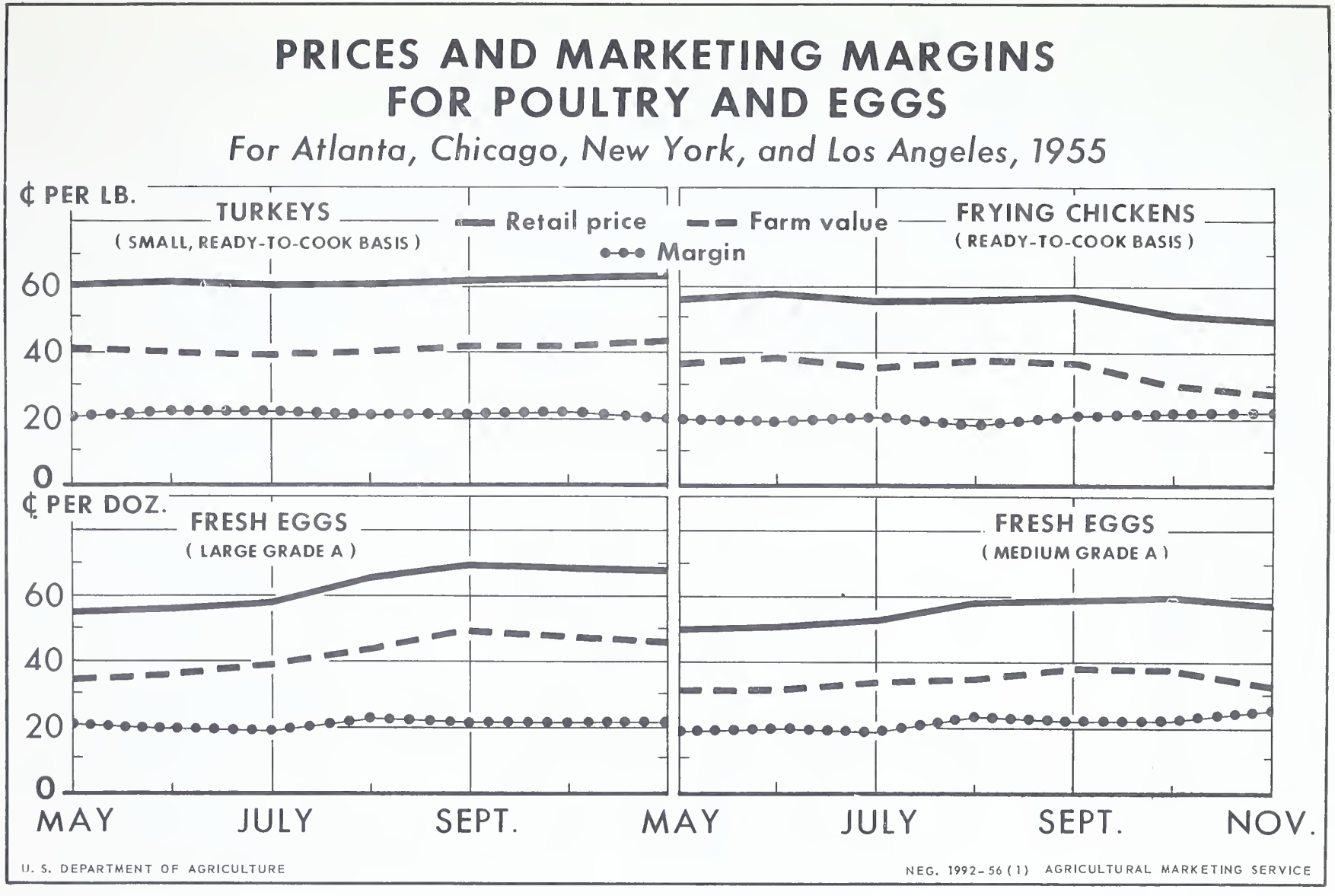
PRICES AND MARKETING MARGINS
FOR POULTRY AND EGGS
For Atlanta, Chicago, New York, and Los Angeles, 1955
¢ PER LB.
TURKEYS
(SMALL, READY-TO-COOK BASIS)
Retail price
Farm value
Margin
FRYING CHICKENS
(READY-TO-COOK BASIS)
60
40
20
0
¢ PER DOZ.
FRESH EGGS
(LARGE GRADE A)
FRESH EGGS
(MEDIUM GRADE A)
60
40
20
0
MAY
JULY
SEPT.
MAY
JULY
SEPT.
NOV.
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Fig. 3

The lowest farm values were recorded for frying chicken which were sold in Atlanta and New York. These chickens were from north Georgia and the Shenandoah Valley. The farm value of chickens sold in Los Angeles was 5 cents higher than that of chickens sold in any other of the four cities.

Table 17.- Frying chickens and turkey fryers: Average retail price, farm value, and marketing margin for New York, Chicago, Los Angeles, and Atlanta, May-November 1955

Month	Frying chickens 1/			Turkey fryer-roasters 1/		
	Retail price	Farm value	Gross margin	Retail price	Farm value	Gross margin
	Cents	Cents	Cents	Cents	Cents	Cents
May	56.2	36.5	19.7	2/60.5	40.4	20.1
June	57.6	38.4	19.2	2/60.7	39.4	21.3
July	55.7	35.4	20.3	60.1	38.8	21.3
Aug.	56.0	38.0	18.0	2/60.1	39.5	20.6
Sept.	57.0	36.4	20.6	61.7	40.7	21.0
Oct.	51.6	30.4	21.2	2/62.5	40.8	21.7
Nov.	49.6	27.3	21.3	2/62.9	42.9	20.0

1/ Ready-to-cook basis.
2/ No. Atlanta price.

Table 18.- Grade A eggs, large and medium: Average retail price, farm price, and farm-to-retail price spread for New York, Chicago, Los Angeles, and Atlanta, May-November 1955

Month	Large eggs			Medium eggs		
	Retail price	Farm value	Farm-to-retail price spread	Retail price	Farm value	Farm-to-retail price spread
	Cents	Cents	Cents	Cents	Cents	Cents
May	55.0	34.6	20.4	49.7	30.7	19.0
June	55.3	35.6	19.7	50.5	30.9	19.6
July	57.6	38.7	18.9	52.3	33.5	18.8
Aug.	65.8	43.4	22.4	58.0	34.7	23.3
Sept.	69.6	48.7	20.9	59.5	37.5	22.0
Oct.	68.7	47.9	20.8	59.8	37.6	22.2
Nov.	67.7	46.0	21.7	1/57.5	32.0	25.5

1/ No Los Angeles price.

Fryer-Roaster Turkeys

Retail prices, farm values, and gross marketing margins on ready-to-cook fryer-roaster turkeys in the four cities were remarkably steady throughout the 7-month period (table 17). Retail prices rose only gradually from 60.5 cents per pound in May to 62.9 cents in early November. Farm values remained close to 20 cents below retail prices throughout this period. There was no significant month-to-month and city-to-city variations in the retail price. Shrinkage for turkey fryers means that every ready-to-cook pound at retail levels required about 1.33 pounds of live weight turkey at the farm.

Eggs, Large and Medium

Retail prices, farm prices, and farm-to-retail price spreads for large and for medium Grade A eggs displayed remarkable similarity in their variation (table 18).

Variations in farm-to-retail price spreads seem to be largely the result of "lags" in the movement of retail prices. The temporary increases in the spreads in August for both large and medium eggs appear also to have been the result of seasonal factors. Losses in quality of eggs, which increase marketing costs, are greatest in hot weather.

Because of contractual arrangements between receivers and producers, Los Angeles had the most stable spreads of any of the four cities studied. New Jersey farm prices were consistently the highest and Iowa farm prices were the lowest. The highest retail prices were in New York and the lowest were in Los Angeles.

Increases in farm-to-retail price spreads on eggs from May to November are not necessarily indicative of an upward trend. Preliminary data for December indicate that farm prices increased more rapidly than retail prices.